

2008 Kentucky Individual Income Tax Updates

Standard Deduction - The standard deduction has increased to \$2,100 for 2008.

Family Size Tax Credit - This credit provides benefits to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2008 threshold amount is \$10,400 for a family size of one, \$14,000 for a family size of two, \$17,600 for a family size of three and \$21,200 for a family size of four or more.

Mortgage Debt Forgiveness (not an allowable exclusion from income for Kentucky tax purposes) – The Mortgage Forgiveness Debt Relief Act of 2007 was enacted to provide relief to those families who have been adversely affected by problems in the subprime mortgage market. This act provides federal income tax relief to those families by permanently excluding mortgage debt forgiven by a lender. However, because Kentucky has not adopted this legislation, any mortgage debt forgiveness will still be considered income for Kentucky purposes and subject to Kentucky tax. Therefore, a Schedule M adjustment must be made on part one, Additions to Federal Adjusted Gross Income, line 6 to report this income.

Ethanol Tax Credit – For taxable years beginning after December 31, 2007, an ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per ethanol gallon produced, unless the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap. If the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap, the department shall determine the amount of credit each ethanol producer receives by multiplying the annual ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the ethanol producer and the denominator of which is the total approved credit for all

ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining ethanol credit shall be disallowed and shall not be carried forward to the next year.

Cellulosic Ethanol Tax Credit – For taxable years beginning after December 31, 2007, a cellulosic ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap. If the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap, the department shall determine the amount of credit each cellulosic ethanol producer receives by multiplying the annual cellulosic ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the cellulosic ethanol producer and the denominator of which is the total approved credit for all cellulosic ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining cellulosic ethanol credit shall be disallowed and shall not be carried forward to the next year.